

25X1

CENTRAL INTELLIGENCE AGENCY  
DIRECTORATE OF INTELLIGENCE

Talking Points for Ambassador Walters

28 August 1986

Impact of US Trade Sanctions on Libya

25X1

US trade and diplomatic sanctions are compounding the unprecedented economic pressure on Libya resulting from the weak oil market. Tripoli loses \$33 million per month for each one dollar decline in oil prices at current estimated export levels of 1.1 million barrels per day (b/d). Conversely, every 100,000 b/d drop in oil exports cost the regime \$36 million per month at the current price of \$12 dollar per barrel.

25X1

--An average price of \$12 per barrel would bring in only \$4.5 billion in revenues, one-quarter the level earned in 1980. This will force Tripoli to make difficult and risky political choices this year to balance import needs and foreign exchange earnings. A reduction of this magnitude would hit imports of both civilian goods and military equipment.

25X1

--Tripoli is aggressively discounting the price of its high-quality crude oil and is offering net-back arrangements to maintain oil earnings.

25X1

--Because of the sharp reduction in imports, military imports will account for 25 percent of the total this year, up from 14 percent five years ago.

25X1

--The decline in industrial and consumer imports certainly means real GDP growth will drop for the sixth consecutive year, the sixth consecutive drop, reducing the overall level of economic activity in real terms to just over half the 1981 level.

25X1

--Libyan trade arrears--primarily to Western Europe--may exceed \$5 billion.

25X1

Of the various US economic restrictions imposed last January, financial sanctions have had the greatest direct impact on the regime. Libya lost access to as much as \$800 million of its then

25X1

25X1

[REDACTED]

\$6 billion in foreign exchange reserves. Libya still has an estimated \$4.0 billion in foreign exchange reserves, about 40 percent of which were held in Japanese banks. Tripoli also has sizable holdings in British, French, and Dutch institutions as well as \$1.3 billion in gold. [REDACTED]

25X1

--Libya has brought a legal suit against a US bank in London to regain access to \$260 million in frozen funds. The initial hearing is scheduled for early October. [REDACTED]

25X1

25X1

Libya's development program and agricultural sector also have felt the pinch of US economic sanctions. [REDACTED]

25X1

--Delays in procuring US equipment and in replacing US personnel are partly responsible for Tripoli's cancellation of the Zuwara aluminum smelter and the steel mill at Misratah. Progress on Qadhafi's priority Great Man-Made River project also has been slowed as a result of the departure of US companies working on the scheme. [REDACTED]

25X1

--US trade restrictions have hindered Libya's ability to obtain US seed which delayed planting of some vegetable crops this spring. Yields of onions and beans may be cut by up to 15 percent as a result. [REDACTED]

25X1  
25X1

US oil companies--Marathon, Conoco, Amerada Hess, Occidental, and W.R. Grace--ceased their operations in Libya in accordance with Administration orders on 30 June. [REDACTED]

25X1

25X1

--All but one have negotiated a standstill agreement with Tripoli permitting the resumption of their operations if relations between Tripoli and Washington improve. [REDACTED]

25X1

25X1

25X1

25X1

25X1

[REDACTED]

--Several West European and Asian firms have expanded their business activities in Libya since 7 January, especially in the oil sector. In select cases British, Italian, West German, French, and other firms probably have filled positions left by departing US workers. [REDACTED]

25X1  
25X1

[REDACTED]

--Libya is not experiencing shortages of critical spare parts in the oil sector. Moreover, Tripoli probably will continue to obtain sufficient select US origin equipment and spare parts through front companies to maintain the current level of oil production--68 percent of maximum sustainable production. [REDACTED]

25X1  
25X1

West European support of US efforts to reduce Libyan oil revenues has been limited so far. [REDACTED]

25X1

--Belgium, Portugal, and France have agreed to reduce their importation of Libyan petroleum. These states, however, have not imported significant volumes of Libyan oil in recent years. [REDACTED]

25X1

--Italy, West Germany, the Netherlands, Spain, and the United Kingdom are reluctant to reduce their reliance on Libyan petroleum. Tripoli has a large trade debt with several of these states--especially Italy--which the regime is resolving with oil barter arrangements. [REDACTED]

25X1

25X1

[REDACTED]

Tripoli continues to use overseas offices of the Libyan Arab Airlines, Libyan Arab Foreign Investment Company (LAFICO) affiliates, and a variety of ostensibly independent front companies to carry out acts of subversion or to procure denied goods. The closure of Libyan Peoples Bureaus in many countries increases the likelihood that Tripoli will place even greater emphasis on using semi-private channels to strike at Libyan exiles or circumvent US trade restrictions. [REDACTED]

25X1

25X1

25X1

25X1

[REDACTED]

--Since 7 January, Libyan intelligence operatives working under Libyan Arab Airline cover probably have been involved in several terrorist related activities, including planned attacks against a US officers club in Ankara and the US Embassy in Nicosia. [REDACTED]

25X1

--Individuals working in LAFICO affiliates have been linked to several planned acts of subversion in Latin America and Europe since 7 January. [REDACTED]

25X1

--Libyan front companies also have been active in helping Libya circumvent US economic sanctions. Two such companies, Service Airlines, Ltd., and Cobra AW, Ltd., of Hong Kong and the United Kingdom respectively, aided Tripoli's successful efforts to obtain two A310-200 aircraft which contain US origin components. Other front companies may be helping Tripoli obtain US origin aircraft spare parts and to recruit US oil workers. [REDACTED]

25X1

[REDACTED] 25X1

**Page Denied**

25X1

25X1

25X1

25X1

SUBJECT: Impact of US Trade Sanctions on Libya [REDACTED]

25X1

[REDACTED]

25X1

DISTRIBUTION:

EXTERNAL:

Copy 1 - Ambassador Walters c/o Michael Ussery (State)

2 - [REDACTED]

25X1

INTERNAL:

- 3 - DIR/DCI/DDCI/Exec Staff
- 4 - DDI
- 5 - ADDI
- 6 - NIO/NESA
- 7 - D/NESA
- 8 - DD/NESA
- 9 - NESA/AI
- 10 - NESA/AI/M

DDI/NESA/AI/M [REDACTED]

28 Aug 86

25X1

:

[REDACTED]

25X1